



Pentagon Federal Credit Union

Office of the President

Testimony of Frank Pollack, Pentagon Federal Credit Union
U.S. Senate Committee on Housing, Banking & Urban Affairs
“Protecting Consumers from Abusive Overdraft Fees:
The Fairness and Accountability in Receiving Overdraft Coverage Act”

November 17, 2009

Good afternoon, Mr. Chairman and members of the committee. On behalf of the Board of Directors and Management of the Pentagon Federal Credit Union I would like to thank you for the opportunity to testify here today.

The Pentagon Federal Credit Union is a \$14 billion credit union serving nearly 950,000 members around the globe. Our core field of membership comprises the men and women of the Army, Air Force, Coast Guard and Department of Homeland security. We are a conservative institution that is particularly fee averse. Our total fee income represents less than 10% of our total income. While our first priority is to always remain safe and sound our strategic objective is to provide products and services that result in high rates on savings, low rates on loans and low fees.

We have been recognized in the military community as a leader with our overdraft protection programs. We have always viewed overdraft protection as a particularly valuable service for the military member. In their line of work maintaining good credit is important to their military readiness and ultimately their career. Thus, our program dates back more than twenty years preceding most of the overdraft programs that have come into question today.

From the very beginning we have believed that members should either qualify for our low cost line of credit or we should not allow over drafting of their accounts. We would note that with more than two decades of experience we find that our members are appreciative of the responsible approach that we have taken. We offer a line of credit attached to a member's checking account with a minimum of \$500 overdraft protection. This service is offered to every credit worthy member who opens a checking account. Forty five percent of our active checking accounts have line of credit overdraft protection. As a result our program has always been opt in. We believe that every consumer must have opt in rights. At the Pentagon Federal Credit Union we charge 14.65% annual percentage rate, calculated on a simple interest basis with no other fees or charges when an overdraft occurs. We believe that by using a line of credit product which is formally recognized as a loan and thus subject to all of the federal lending disclosure requirements, the cost to the consumer is both fully disclosed and properly proportional to the amount that they overdraft their account by.

At PenFed we post transactions smallest to largest to avoid charging unnecessary overdraft and non sufficient funds fees. We provide separate mail notifications for each overdraft event so that our members are kept fully aware of the status of their account. We believe rapid notification is important because it enables members to pay off the loan immediately if they are able thus further reducing the cost of the overdraft. In short, we have attempted to craft a product that is truly consumer friendly. We would make note of the fact that we have not received a single complaint from our membership regarding the order in which we process items in more than twenty years.

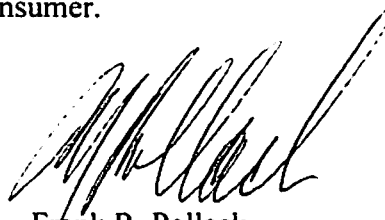
Nevertheless, there are members who do not choose to opt in and there are those who can not qualify for a line of credit. These members are not allowed to overdraft their account with the limited exception of an off line debit transaction where we are required, by contract, to process such payments. In those instances we do charge a fee of \$30. This does not happen with great frequency and we recognize the proposed bill would eliminate this fee. We support that and we recognize that the recent action of the Federal Reserve Bank will prohibit such a fee. However, we do believe that merchants and networks should also be required to process all transactions in real time which would eliminate this exception circumstance.

As an organization we are constantly focused on process improvement. We felt that there was more that we could do for our military members in the area of overdrafts. This summer we made a decision to eliminate as many of the non sufficient funds fees that our military members incur as we possibly could. The product we created is called, "Warriors Advantage." It waives the checking account fees associated with instances of insufficient funds for up to two occurrences in any rolling three month period. Importantly, this program is separate and distinct from our overdraft line of credit and goes beyond the minimum requirements of the proposed legislation.

Under this program a military member with overdraft protection can use all of the money available in their checking account plus all of their line of credit *and* have two additional instances of returned items every ninety days with no fees or charges beyond the interest on their loan. Our research indicated that this program would result in just over 98% of our military membership with checking accounts *never* experiencing a fee!

The Warriors Advantage program represents only a beginning for us. We intend to extend this program to our entire membership and we are already at work on our next version which we hope to roll out in the summer of 2010.

Thank you very much for this opportunity to testify and we are indebted to you for your work on behalf of the American consumer.



Frank R. Pollack
President/CEO